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FISCAL IMPACT STATEMENT

LS 6297

BILL NUMBER: HB 1081

NOTE PREPARED: Nov 21, 2002

BILL AMENDED:

SUBJECT: New Harmony Food and Beverage Tax.

FIRST AUTHOR: Rep. Weinzapfel

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: ☒ **GENERAL**
☐ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

LOCAL IMPACT	CY 2003	CY 2004	CY 2005
Local Revenues	6,100	25,000	25,700
Local Expenditures			
Net Increase (Decrease)	6,100	25,000	25,700

Summary of Legislation: This bill permits the fiscal body of New Harmony to impose an excise tax on food and beverage transactions. The bill requires New Harmony to use the tax revenues collected under the Food and Beverage Tax to fund the repair and maintenance of streets and sidewalks.

Effective Date: July 1, 2003.

Explanation of State Expenditures: The Department of State Revenue administers, audits, and collects local food and beverage taxes. In 2001, the Department administered, audited, and collected the Food and Beverage Tax at approximately \$0.51 per \$100 of revenue. The Department's current resources are sufficient to absorb the additional costs associated with this proposal.

Explanation of State Revenues:

Explanation of Local Expenditures: This bill allows the town of New Harmony to use funds generated from the Food and Beverage Tax for the repair and maintenance of town streets and sidewalks. Currently,

under IC 6-9-27, revenue must be used exclusively for the financing, construction, operation, or maintenance of facilities built for the following purposes: sanitary sewage or wastewater treatment, parks or recreation, drainage or flood control, and water treatment, storage, or distribution. Revenue may also be used to pay for bonds, loans, lease payments, or any other obligations incurred in providing these facilities (this only applies to obligations incurred after the tax is adopted).

Explanation of Local Revenues: *Summary:* Under the bill, imposition of the New Harmony Food and Beverage Tax is estimated to generate revenue of **\$6,100** for **CY 2003**, **\$25,000** for **CY 2004**, and **\$25,700** for **CY 2005**. The Food and Beverage Tax is an excise tax on food and beverages prepared and served for sale in the local unit imposing the tax. The tax rate would be 1% and would be collected and remitted in the same manner as the state Sales Tax.

Methodology: According to the most recent U.S. Census Bureau data, total food and beverage sales in Posey County for CY 1997 were \$9,463,000. Based on this amount, a 1% food and beverage tax would have generated an additional \$94,630 in CY 1997, or 1% of the total sales. Adjusting for the sales of prepared foods in grocery stores that are not included in the Census data, a 10% (deli-factor) adjustment was made. The new CY 1997 base would be \$104,000.

The average growth rate of food and beverage-related sales in Posey County from CY 1992 to CY 1997 was 4.5%, and this rate was used to project tax collections through CY 2000. Based on recent economic performance, CY 2001 and CY 2002 collections were estimated using the state Sales Tax growth rates of 1% and 2% respectively.

Two sources for the number of establishments serving food and beverages in New Harmony were available for analysis. One estimate was provided by the Mt. Vernon Chamber of Commerce. The other estimate of establishments was gathered from Posey County Health Department (PCHD) food and beverage permit data. As the PCHD data included deli-type prepared foods, the deli factor was not applied to this data. Using these estimates, the ratio of establishments selling food and beverages between New Harmony and Posey County is approximately 20%. The ratio was then multiplied by Posey County's CY 2002 projected base of \$111,300 without the deli factor and \$122,500 with the deli-factor to establish a base for New Harmony. The mid-point of these two estimates was approximately \$23,400 ($\$116,900 \times 20\% = \$23,400$) for CY 2002. The CY 2002 midpoint was used to project revenue for CY 2003-2005 using the Sales Tax growth rate of 2.6% from the November 14, 2001, state revenue forecast.

Due to the effective date of July 1, 2003, New Harmony would likely collect taxes on food and beverage sales for only the fourth quarter of the town's calendar year. The expected impact for CY 2003 would be one-fourth of the annual projection ($\$24,400 \times 0.25$), or approximately \$6,100.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Town of New Harmony.

Information Sources: U.S. Bureau of Census; Posey County Health Department, 812- 838-1328; Mt. Vernon Chamber of Commerce, 812-838-3639; Department of State Revenue.

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